Ameren Ex. 3.0

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 07-0539

DIRECT TESTIMONY

OF

LEONARD M. JONES

Submitted On Behalf

Of

CENTRAL ILLINOIS LIGHT COMPANY
d/b/a AmerenCILCO,

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY
d/b/a AmerenCIPS and

ILLINOIS POWER COMPANY
d/b/a AmerenIP

(The Ameren Illinois Utilities)

November 15, 2007

TABLE OF CONTENTS

Page

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(The Ameren Illinois Utilities)

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Leonard M. Jones. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom are you employed and in what capacity?

A. I am employed by Ameren Services Company as Managing Supervisor – Restructured Services – Regulatory Policy and Planning. A list of my qualifications is attached as the Appendix to my Direct Testimony.

II. PURPOSE AND SCOPE

Q. What is the purpose of your Direct Testimony in this proceeding?

A. My testimony will address the cost limits described in P. A. 95-0481 ("Act") as they pertain to the Companies[1]. Specifically, I will describe the methodology used to calculate the cost limit for energy efficiency and demand-response measures, and the results of the analysis. Ameren witness Vickiren Bilsland discusses the energy efficiency and demand response cost recovery tariff in her Direct Testimony.

III. SUMMARY OF COST LIMITS

Q. Please provide a summary of your analysis and conclusions.

A. The cost limit for energy-efficiency and demand-response measures has been determined to be $13.8 million, $29 million, and $44.8 million for successive plan years one, two, and three, respectively. Year one consists of the period June 1, 2008 through May 31, 2009.

The Ameren Illinois Utilities' plan, along with the Department of Commerce and Economic Opportunity ("DCEO"), anticipates spending up to the projected cost limit. Accordingly, the charge is expected to be 0.0360 ¢/kWh for the year beginning June 1, 2008.

IV. COST LIMIT FOR ENERGY-EFFICIENCY AND DEMAND-RESPONSE MEASURES

A. Background

Q. What do you mean by "cost limit" regarding implementation of energy efficiency and demand-response measures?

[1] By Company, I am referring to either of AmerenIP, AmerenCIPS, or AmerenCILCO; by Companies or Ameren Illinois Utilities, I am referring to all three utilities.

A. Section 12-103(d) of the Act calls for a series of checks to ensure spending on measures does not exceed specified cost per kWh limits. The specified cost per kWh limit multiplied by the expected kWh sales for the plan period produces the cost limit.

Q. Are the measures implemented for energy-efficiency kWh reductions applicable to all delivered energy?

A. Yes. The energy-efficiency goal pertains to all delivered kWhs, regardless of the customer's choice of supplier for power and energy service.

Q. Are the measures implemented for demand-response applicable to the demands associated with all delivered load?

A. No. Demand-response measures are applicable only to the load of the Companies' customers served through fixed-price "virtual" bundled service tariffs for customer groups whose service has not been declared competitive (i.e., customers with demands under 400 kW). (See Section 12-103(a) of Act)

Q. Is there a separate cost limit for energy-efficiency and demand-response measures?

A. No. Both requirements fall under a single cost limit calculation.

Q. Have you determined a separate cost limit for each Company?

A. No, the cost limit has been calculated for all of the Ameren Illinois Utilities as a single electric utility. Section 12-103(i) states Illinois electric utilities that are affiliated by virtue of a common parent company are considered a single electric utility. The Ameren Illinois Utilities are affiliated by virtue of a common parent company, Ameren Corporation.

Q. Have you determined a separate cost limit for each rate class?

A. No. The Act holds the Companies responsible for meeting the appropriate load reduction goals based on evaluating performance as a whole. Accordingly, the cost limit is determined as a whole under a single electric utility structure.

B. Load Reduction Goals within Cost Limit

Q. Please review the load reduction goals for energy-efficiency outlined in Act.

A. Section 12-103(b) of the Act states:

> "Electric utilities shall implement cost-effective energy efficiency measures to meet the following incremental annual energy savings goals: (1) 0.2% of energy delivered in the year commencing June 1, 2008; (2) 0.4% of energy delivered in the year commencing June 1, 2009; (3) 0.6% of energy delivered in the year commencing June 1, 2010; (4) 0.8% of energy delivered in the year commencing June 1, 2011; (5) 1% of energy delivered in the year commencing June 1, 2012; (6) 1.4% of energy delivered in the year commencing June 1, 2013; (7) 1.8% of energy delivered in the year commencing June 1, 2014; and (8) 2% of energy delivered in the year commencing June 1, 2015 and each year thereafter."

Q. Please provide an overview of the Companies' load reduction goals for energy-efficiency as they pertain to the cost limit.

A. In the first year (June 1, 2008 through May 31, 2009), the Companies expect to provide delivery service for 38,462,615 MWh before implementation of energy-efficiency measures. Multiplying the first year goal of 0.2% by expected sales gives 76,925 MWh. In the second year (June 1, 2009 through May 31, 2010), the Companies expect to deliver 38,865,191 MWh before implementation of energy-efficiency measures. The second year incremental goal equals [38,865,191 MWh less 76,925 MWh] times 0.4%, or 155,153 MWh. The third year incremental goal equals [39,308,227 MWh less 76,925 MWh less 155,153 MWh] times 0.6%, or 234,457 MWh. The Companies sales forecast, adjusted for energy-efficiency goals, were used in the determination of the cost limit for energy-efficiency and demand-response measures. Please refer to Ameren Ex. 3.1,

columns 2 through 5 for additional details on the calculation of energy-efficiency load reduction goals.

C. Determination of Average Cents per kWh

Q. Please outline the provisions in the Act that discuss the cost limit.

A. The Act directs the utilities to reduce the amount of energy efficiency and demand-response measures implemented in any single year if the cost exceeds certain limits. The cost of measures are to be reduced to a level necessary to limit the estimated average increase paid by retail customers to: (1) in 2008, no more than 0.5% of the amount paid per kilowatt hour by those customers during the year ending May 31, 2007; (2) in 2009, the greater of an additional 0.5% of the amount paid per kilowatt hour by those customers during the year ending May 31, 2008, or 1% of the amount paid per kilowatt hour by those customers during the year ending May 31, 2007; and (3) in 2010, the greater of an additional 0.5% of the amount paid per kilowatt hour by those customers during the year ending May 31, 2009 or 1.5% of the amount paid per kilowatt hour by those customers during the year ending May 31, 2007. The statute also prescribes rate impact limitations for years beyond 2010 but they are not germane with respect to this plan. (See Section 12-103(d))

Q. Does determining the average ¢/kWh paid by customers require estimating power and energy costs for customers served by a Retail Electric Supplier (RES)?

A. Yes it does. Section 12-103(a) states "For purposes of this Section, the total amount paid for electric service includes without limitation estimated amounts paid for supply, transmission, distribution, surcharges, and add-on-taxes."

Q. Please explain the approach used to estimate the amount paid for RES-served customers.

A. The approach relied upon MISO Locational Marginal Prices ("LMP") data for the first period, and a combination of MISO LMP and Platts Energy Trader information for future periods. Since the first year evaluates average ¢/kWh values for the year ending May 2007, actual data was used to the extent available. Specifically, hourly MISO LMP values were multiplied by hourly settlement data for the period from January 1, 2007 through the end of May 2007. Hourly settlement data consists of actual hourly meter data of interval metered customers (generally those over 400 kW) and profile data for all other customers. Data from June 2006 through December 2006 was not used because only 16% of total RES served load for the 12 months ending May, 2007 was delivered in that time, and hourly load information was not readily available. Instead, the average cost developed using data from first five months of 2007 was used to extrapolate a cost for RES-provided kWh in 2006.

For the second year, market prices were estimated using two sources. First, historic LMP values were used to estimate off-peak prices. Second, on-peak forward prices listed in Platts Energy Trader, shaped by the historic relationship of LMP prices for the 16 hour on-peak period, were used. This market price determination is similar to the approach used in AmerenIP's former Market Value Index tariff. Historic hourly loads for each class were multiplied by estimated hourly prices to arrive at the total market-based cost. An identical process was used to determine third year market prices, except on-peak forward prices were escalated by about 5% to reflect the expected increase between calendar year 2008 market forwards and 2009 market forwards.

Q. Do the total supply cost estimates include any additional expenses?

A. Yes. The supply cost estimates also include provisions for distribution losses, capacity, ancillary services, MISO market settlement costs, Supply Cost Adjustments, and transmission services. Distribution losses add about 0.3 ¢/kWh to the cost estimates of DS-2, DS-3, and DS-5 customers, and about 0.08 ¢/kWh to DS-4 costs. The lower distribution loss value for DS-4 reflects that a significant portion of these customers' total load is served at higher voltages where line losses are not as great. Values for capacity and ancillary services reflect the approximate cost of procuring the same to serve the Companies' Rider RTP-L customers. The additional cost is about 0.4 ¢/kWh, 0.33 ¢/kWh, and 0.26 ¢/kWh for DS-2, DS-3, and DS-4 customers, respectively. The Supply Cost Adjustment is a cost that is added to the Company's bundled service customers' bills to recover the cost of the Companies procurement function, uncollectibles, and cash working capital expense. A RES may have similar expenses, and thus these components were included. The additional cost is about 0.03 ¢/kWh for all classes. A proxy value for MISO market settlement costs was also included. A value of 0.1 ¢/kWh was added to the cost estimate for DS-1 through DS-4 customers and 0.05 ¢/kWh for DS-5 customers. A lower value for DS-5 customers was assigned since these customers operate under a known load pattern, allowing minimization of MISO market settlement costs. Finally, transmission service costs were added. The monthly coincident peak for each class was multiplied by the present network rate to arrive at a total transmission cost for the class. The total cost, divided by class kWh, yielded the estimated transmission cost per kWh. The estimated transmission costs ranged from about 0.25 ¢/kWh for DS-2, to 0.17 ¢/kWh for DS-4.

Q. What sources did you use to develop bundled rate and delivery services average costs per kWh?

A. Historic bundled service and delivery service values were provided through a query of the Companies' billing system. The Companies' forecast linked to the current operating budget provided expected future sales and revenue for both bundled service and delivery service customers.

Q. Did you adjust current bundled service power prices to reflect future price expectations?

A. No. Approximately 1/3 of present power supply contracts will expire and be replaced on or about June 1, 2008. Another 1/3 will each expire on or about June 1, 2009 and June 1, 2010. The Companies do not know if future power supply contracts will be higher, lower, or stay the same. This calculation assumes that power supply costs to serve the Companies' fixed price load will remain the same.

Q. Did you adjust estimated delivery service prices to reflect your recently filed delivery services rate cases?

A. No. While the Companies believe the full increase is warranted, there is no guarantee that the increase will be granted. Thus, we have erred on the side of ensuring that the increase is no more than an additional 0.5% of each respective year's average cents per kWh either paid or estimated based on current Delivery Service rates.

Q. What are the average cents/kWh paid for each of the periods ending May 2007, May 2008, and May 2009?

A. The Ameren Illinois Utilities have estimated that average cents/kWh paid to be 7.192 ¢/kWh, 7.892 ¢/kWh, and 8.126 ¢/kWh for the years ending May 2007, May 2008, and May 2009, respectively.

D. Determination of Cost Limit

Q. Since you have identified the Companies' sales forecast and average cents per kWh applicable to each of the three planning years, can you calculate the cost limit?

A. Yes. Please reference Ameren Ex. 3.1. The limit for the first year is 0.5% of the year ending May 2007 value of 7.192 ¢/kWh, or 0.036 ¢/kWh. Multiplying 38,385,690 MWh (expected delivered sales for the plan period June 1, 2008 – May 31, 2009) by the first year limit per kWh of 0.036 ¢/kWh yields $13.8 million.

In the second year, the cost limit is the greater of 1.0% of the year ending May 2007 value (0.0719 ¢/kWh) which produces a limit of $27.8 million, or an additional 0.5% of the year ending May 2008 cents/kWh value of 7.892 ¢/kWh (0.0395 ¢/kWh). The 2008 amount adds $15.2 million, which when added to $13.8 million produces $29 million. Thus, the total limit for the second year is $29 million.

In the third year, the cost limit is the greater of 1.5% of the year ending May 2007 value which produces a limit of $41.9 million, or an additional 0.5% of the year ending May 2009 cents/kWh value of 8.126 ¢/kWh (0.0406 ¢/kWh). The 2009 amount adds $15.8 million, which when added to $29 million produces $44.8 million. Thus, the total limit for the third year is $44.8 million.

Q. Do you plan to update the cost limits for the second and third years of the plan to reflect updates to various cost elements, such as delivery service revenue, transmission revenue, and market cost information?

A. While each of those cost items, and others, can influence the overall cost per kWh paid by customers, the Companies do not plan to update the cost limit values within the three year plan. The Companies seek to have the Commission approve a three year plan containing proposed programs to meet the MWh savings goals and budgets. Updating the cost limit could result in significantly higher or lower spending limits. This in turn could significantly impact the Companies' ability to implement the plan approved by the Commission. Updating the cost limit only every three years provides more stability to the proposed plans for energy efficiency and demand response measures that the Companies request the Commission to approve in this proceeding.

V. CONCLUSION

Q. Does this conclude your Direct Testimony?

A. Yes.

APPENDIX – STATEMENT OF QUALIFICATIONS

I graduated from Western Illinois University with a Bachelor of Arts Degree in Economics in 1987. In 1988, I received a Master of Arts Degree in Economics, also from Western Illinois University. From 1988 through 2004 I was employed by Illinois Power Company ("Illinois Power") as a Rate Analyst, Senior Rate Analyst, Rate Specialist, Team Leader – Costing and Economic Services, and Director – Business Planning and Forecasting. Shortly after completion of Ameren Corporation's acquisition of Illinois Power, I was assigned to my current position.

I previously testified before the Illinois Commerce Commission in Docket No. 91-0335, regarding Illinois Power's electric marginal cost of service study; Docket No. 93-0183, regarding Illinois Power's gas marginal cost of service study; Docket No. 98-0348, regarding Illinois Power's proposed Rider DA-RTP II; Docket No. 98-0680, regarding the investigation concerning certain tariff provisions under Section 16-108 of the Public Utilities Act and related issues; Docket No. 98-0769, regarding requirements governing the form and content of contract summaries for the 1999 Neutral Fact Finder; Docket Nos. 99-0120 & 99-0134 (Cons.) regarding approval of Illinois Power's Delivery Service Implementation Plan and Tariffs; Docket Nos. 00-0259/00-0395/00-0461 (Cons.) regarding proposed Rider MVI and revisions to Rider TC; Docket No. 01-0432 regarding electric Delivery Service Tariff rate design and related matters; Docket No. 04-0476 regarding gas rate design; Docket Nos. 06-0070/06-0071/06-0072 (Cons.) regarding electric Delivery Service Tariff rate design and related matters; Docket Nos. 06-0691/06-0692/06-0693 (Cons.) regarding residential real-time pricing tariffs; Docket 06-0800 regarding an investigation into changes to auction process and the Ameren Illinois Utilities' market value tariffs (Rider MV); and Docket 07-0165 regarding an investigation into the Ameren Illinois Utilities' rate design.

Ameren Illinois Utilities
Energy Efficiency and Demand Response
Summary of Cost Limit for Three Year Plan

		MWh Goal				Revenue Limit: Limit Based on Year Ending 5/31/07		Revenue Limit: Limit Based on Add'l 0.5% of ¢/kWh Paid TME 5/08 and 5/09 x Plan MWh			Greater of '07 Based or Additive Amounts
	Plan Period	Base Forecast	Incremental EE Target	Cumulative EE Target	Adjusted Forecast	¢/kWh Limit	Dollar Amount	¢/kWh Limit	Incremental Dollar Amount	Add'l 0.5% Plus Prior Year Cap	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	6/1/08 - 5/31/09	38,462,615	76,925	**76,925**	38,385,690	0.0360	$ 13,804,287	N.A.	N.A.	N.A.	**$ 13,804,287**
2	6/1/09 - 5/31/10	38,865,191	155,153	**232,078**	38,633,113	0.0719	$ 27,786,530	0.03946	$ 15,244,454	$ 29,048,741	**$ 29,048,741**
3	6/1/10 - 5/31/11	39,308,227	234,457	**466,535**	38,841,692	0.1079	$ 41,904,824	0.0406	$ 15,781,296	$ 44,830,037	**$ 44,830,037**

Notes:
Col (1): Reflects the planning period for which measures are to be implemented
Col (2): Base forecast prior to energy efficiency measures
Col (3): Year 1 = Col (2) x 0.2%; Year 2 = [Col (2) - Col (3) Yr 1] x 0.4%; Year 3 = [Col(2) - Col (3) Yr 1 & Yr 2] x 0.6%
Col (4): Sum of values in Col (3)
Col (5): Col (2) - Col (4)
Col (6): Year ending 5/31/07 ¢/kWh amount paid times 0.5% in Yr 1, 1% in Yr 2, and 1.5% in Yr 3
Col (7): Col (6) x Col (5)
Col (8): Year ending 5/31/08 and 5/31/09 ¢/kWh amount estimated to be paid times 0.5% in Yr 2 and Yr 3, respectively
Col (9): Col (8) x Col (5)
Col (10): Yr 2 = Col (9) + Col(7) Yr 1 value; Yr 3 = Col(9) + Col(10) Yr 2 Value
Col (11): Greater of Col (7) or Col (10)